Zacks Equity Research

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Dejour Enterprises Ltd. (DEJ-AMEX)

DEJ: Zacks Co. Report – OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	09/05/2010
Current Price (11/16/10)	$0.32
Six- Month Target Price	**$1.10**

OUTLOOK

Our rating on Dejour's stock remain Outperform based upon strong confidence in higher production levels due to successful drilling at the Halfway formation at Woodrush and the anticipation of the implementation of a waterflood project early in 2011. The company's production profile should dramatically improve after the removal of the British Columbia Oil and Gas Commission's allowable well production limits. Our price target is $1.10 based on NAV analysis.

SUMMARY DATA

52-Week High	**$0.45**
52-Week Low	**$0.28**
One-Year Return (%)	**-15.44**
Beta	**1.66**
Average Daily Volume (shrs.)	**354,614**
Shares Outstanding (million)	**101**
Market Capitalization ($ mil.)	**$32**
Short Interest Ratio (days)	**0.94**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2010 Estimate	**N/M**
P/E using 2011 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Oil – E&P**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue **(before non-reoccurring gains on sale)**
(In millions of $ CAD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	0.00 A	2.24 A	1.68 A	1.85 A	5.77 A
2009	2.72 A	1.68 A	1.06 A	1.33 A	6.79 A
2010	1.31 A	2.77 A	2.54 A	1.69 E	8.31 E
2011					12.92 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.02 A	-$0.02 A	-$0.04 A	-$0.03 A	-$0.11 A
2009	-$0.03 A	-$0.01 A	-$0.03 A	-$0.03 A	-$0.11 A
2010	-$0.02 A	-$0.00 A	-$0.01 A	-$0.02 E	-$0.05 E
2011					$0.00 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/M**

2008 and 2009 quarterly EPS do not equal annual EPS due to rounding.

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KEY POINTS

- The rating on Dejour's stock is Outperform due to strong confidence in higher production levels due to a successful drilling program at Woodrush and the anticipation of the implementation of a waterflood project in the first quarter of 2011. Our price target of $1.10 is derived assigning a 40% discount to the company's net asset value of $1.81 (see Valuation section).
- Significant fundamental events can considerably increase the company's valuation parameter in a step-fashion. One such event would be the Dejour's achievement of positive profitability, in which case the stock could experience rapid price appreciation. Dejour should become profitable in the second half of 2011.
- During 2010, the company successful drilled three wells at Woodrush, bringing the company's total to nine producing wells.
- Recent reserve studies (Gibson Gulch by Gustavson Associates released in March 2010 and Woodrush by GLJ Petroleum Consultants released in August 2010) have increased Proved and Probable reserves.
- Management continues to take steps towards the development of its prime properties: Woodrush in British Columbia's Peace River Arch and Gibson Gulch in Colorado's Piceance Basin.
- Management has a strong track record of developing oil and gas properties. CEO Robert Hodgkinson has twice founded oil and gas companies that mounted successful, large-scale drilling programs. The companies were subsequently acquired by medium-capitalization exploration companies. President Harrison Blacker has a 30-year record of managing oil and gas operations around the globe.

OVERVIEW

Based in Vancouver, British Columbia, Dejour Enterprises (DEJ) is a Canadian independent oil and natural gas company and holds interests in 129,000 net acres of oil and gas leases in North America. Proved and Probable Producing Reserves (as estimated by the independent petroleum engineering consultant firm GLJ Petroleum Consultants as of June 30, 2010) were 346 thousand barrels of oil (MBO)and 1,539 million of cubic feet (MMCF) of natural gas, totaling 604 thousand barrels of oil equivalent (MBOE). All Proved Producing Reserves (354 MBOE) are in the Canadian **Woodrush** area of the Peace River Arch, which has nine producing wells. Acreage holdings consist of 15,000 net acres in northeastern British Columbia and northwestern Alberta, and 109,000 net acres (all undeveloped) in Colorado and Utah in the Piceance, Uinta and Paradox Basins. Proved and Probable Undeveloped Reserves at **Gibson Gulch** (as estimated by the independent petroleum engineering consultant firm Gustavson Associates LLC as of December 31, 2009) were 1.4 million barrels of oil (MMBO) and 215 billions of cubic feet equivalent (BCFE) of natural gas. The company is the operator of its developed acreage and approximately 88% of its undeveloped acreage. During 2009 Dejour sold its shares in Titan Uranium Inc., but still maintains a 10% carried interest and 1% Net Smelter Return on approximately 578,365 acres.

RECENT NEWS

On November 15, 2010, Dejour reported results for the third quarter of 2010 ending September 30, 2010. Quarterly earnings were a loss of CAD $0.01 per diluted share, below our estimate of breakeven. Total revenues increased 141% year-over-year to $2.54 million attributable to two new wells (one gas and one oil) coming on line in May with unlimited production for 90 days, of which a portion was recorded in the third quarter. Sequentially, average production increased to 610 BOE/D from 599 BOE/D in the second quarter. Cost-cutting continued to be implemented: operating & transportation expenses declined 17%

and G&A expenses fell 38%. In addition, amortization and depletion allowances declined 11%, since the reserves at Woodrush increased based on the latest reserve study as of June 30, 2010. Operating netback increased to $1.63 million from $382,000 in the comparable year-ago quarter due to higher revenues and lower operating & transportation expenses, partially offset by increased royalties. In the third quarter, Dejour achieved positive operating cash flow of $687,000 for the second consecutive quarter, up from $559,000 in the second quarter. Management was again successful in accessing the capital markets during the quarter, arranging a CAD $2.0 million stock and warrant sale to an institutional investor. The proceeds are expected to help fund the waterflood project, retire some debt obligations, and supplement working capital.

During the fourth quarter, gross production is expected to average 650 BOE/D, down from prior expectations of 940 BOE/D due to the OGC's production restrictions. However, gross production should increase to 1,400 BOE/D by the end of June 2011 with the expected implementation of a waterflood project.

On October 29, 2010 Dejour Enterprises announced that the company submitted an application to the British Columbia Oil and Gas Commission (OGC) for a waterflood program to be implemented in the Halfway Oil Pool at the Woodrush Field. The implementation of a waterflood will dramatically increase production due to the current well allowable restriction imposed by the OGC of British Columbia, which has artificially limited gross production to approximately 650 BOE/D.

On August 3, 2010 Dejour Enterprises announced GLJ Petroleum Consultants conducted a reserve evaluation of Proved and Probable Reserves of Dejour's Woodrush 6,000 acre leasehold effective June 30, 2010. Proved and Probable Producing reserves (2P) increased to 346 MBO, 1,539 MMCF for a total of 604 MBOE, up from the prior evaluation of 255 MBOE. The net present value of the Woodrush Proved and Probable Producing reserves increased from $6.5 million to nearly $17 million.

PRODUCING PROPERTIES

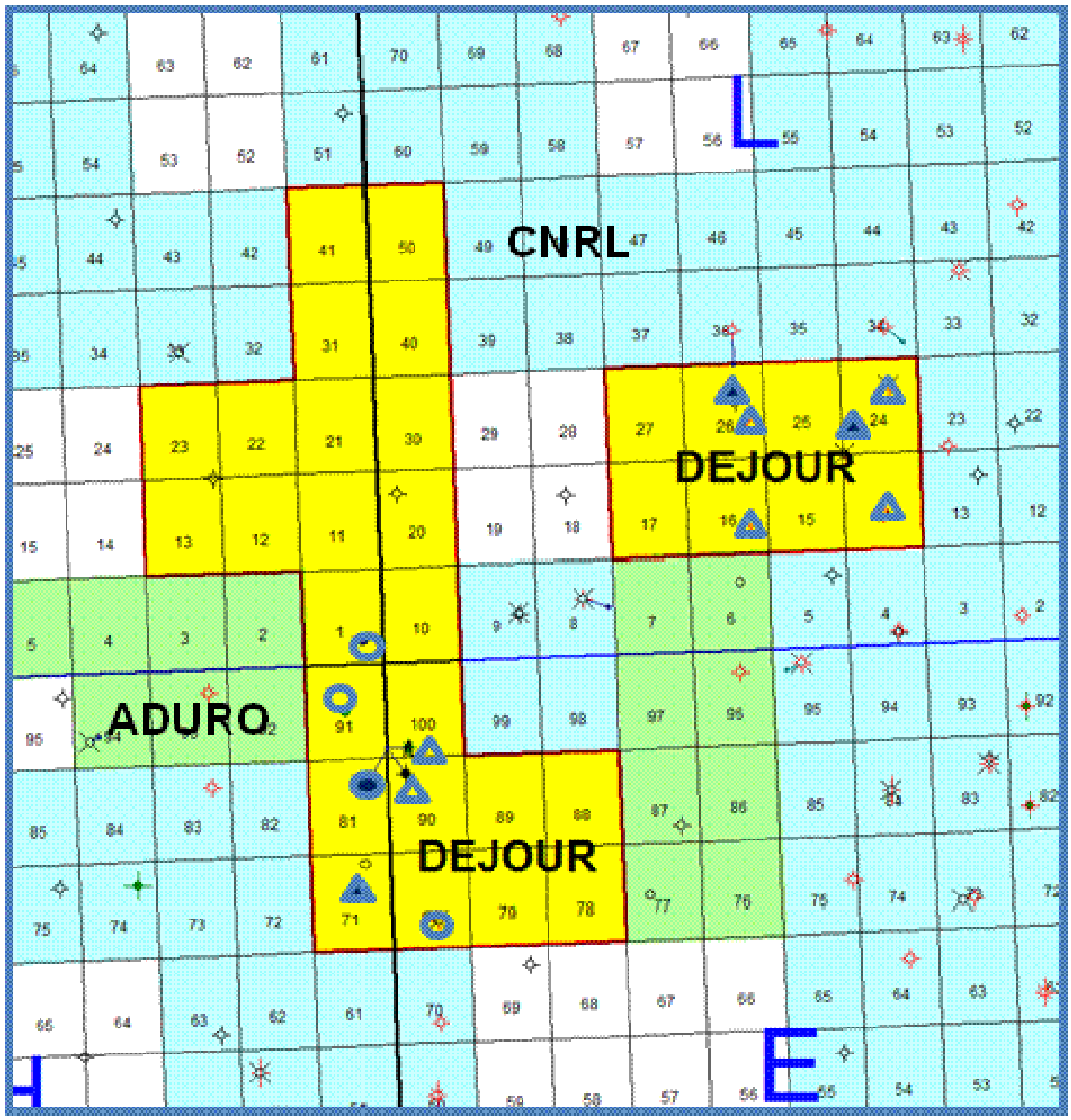
Peace River Arch in the Western Canadian Sedimentary Basin



Dejour Enterprises operates exploration and production projects in 20,000 acres in the Peace River Arch located in northeastern British Columbia and northwestern Alberta. Dejour owns and has a 75% working interest in the **Woodrush** area of 6,000 gross acres (or 4,500 net acres), which is the source of the company's entire production and is the focus of drilling and exploration activity in 2010 and early 2011.

Currently, the area has production from nine wells (three oil and six gas) with current average daily gross production of 650 barrels of oil equivalent per day (BOE/D). Four gas wells are producing from Notekwin formation (Dejour's parcel in the upper right near CNRL), and three oil wells and two gas wells producing from Halfway reservoir (Dejour's parcel in the lower left adjacent to ADURO). Gross production should increase to 1,400 BOE/D by the end of June 2011.

Woodrush (Peace River Arch) Project



Courtesy of Dejour Enterprises

In 2008, Dejour operated nine wells with an average working interest of 95%. During 2009, 25% of Dejour's interest in Woodrush/Drake was sold for $4,500,000 in cash, which was used to fund further investments into the company's exploration & drilling programs and to reduce the company's bank line of credit. As a result, Dejour's working interest in Woodrush/Drake was reduced to 75% in 2009. In addition, in that same year, three gas wells in Alberta (one in Carson Creek and two in Saddle Hills) were sold thus reducing Dejour's well total to six.

In late 2009 and early 2010, the company shot, processed, and interpreted a 3-D seismic survey on the northern portion of the Woodrush lease and the southern portion of the newly acquired acreage of 1,579 acres of Crown land located adjacent to the northern boundary of the Woodrush lease (which was offered for lease in November 2009 and for which Dejour paid $340,000). The newly acquired acreage is

composed of quadrants 41, 50, 31, 40, 23, 22, 21, 30, 13, 12, 11, and 20 in the map above. Circles represent oil wells, and triangles denote gas wells. If the center of the object is black, it stands for a future well.

So far in 2010, Dejour has drilled three successful wells at Woodrush. Two wells (one oil well and one gas well) came on line in May, both of which were able to enjoy unlimited production for 90 days before being restricted with well allowables imposed by the British Columbia Oil and Gas Commission (OGC). For the first 90 days, production from the wells was unlimited, and then regulations required that production be lowered to an allowable level commensurate with maintaining the pressure level in the reservoir until a mechanism, such as the implementation of a water flood, is put into place to maintain the reservoir's pressure and conserve the oil resource. In the fall drilling season, Dejour successfully drilled another oil well at the southeast edge of the Halfway reservoir.

Currently, Dejour is restricting production from the Halfway reservoir to conform to British Columbia's allowable well production limits due to a naturally increasing gas component, which is a result of oil pressure in the downhole reservoir dropping below the bubble point. This temporary reduced production will lower sequential operating revenue and operating cash flow in the fourth quarter of 2010. Management expects average daily gross production from Woodrush to be approximately 650 BOE/D during the fourth quarter. For 2010, management expects total revenue of CAD $8 million, all from the Woodrush Field.

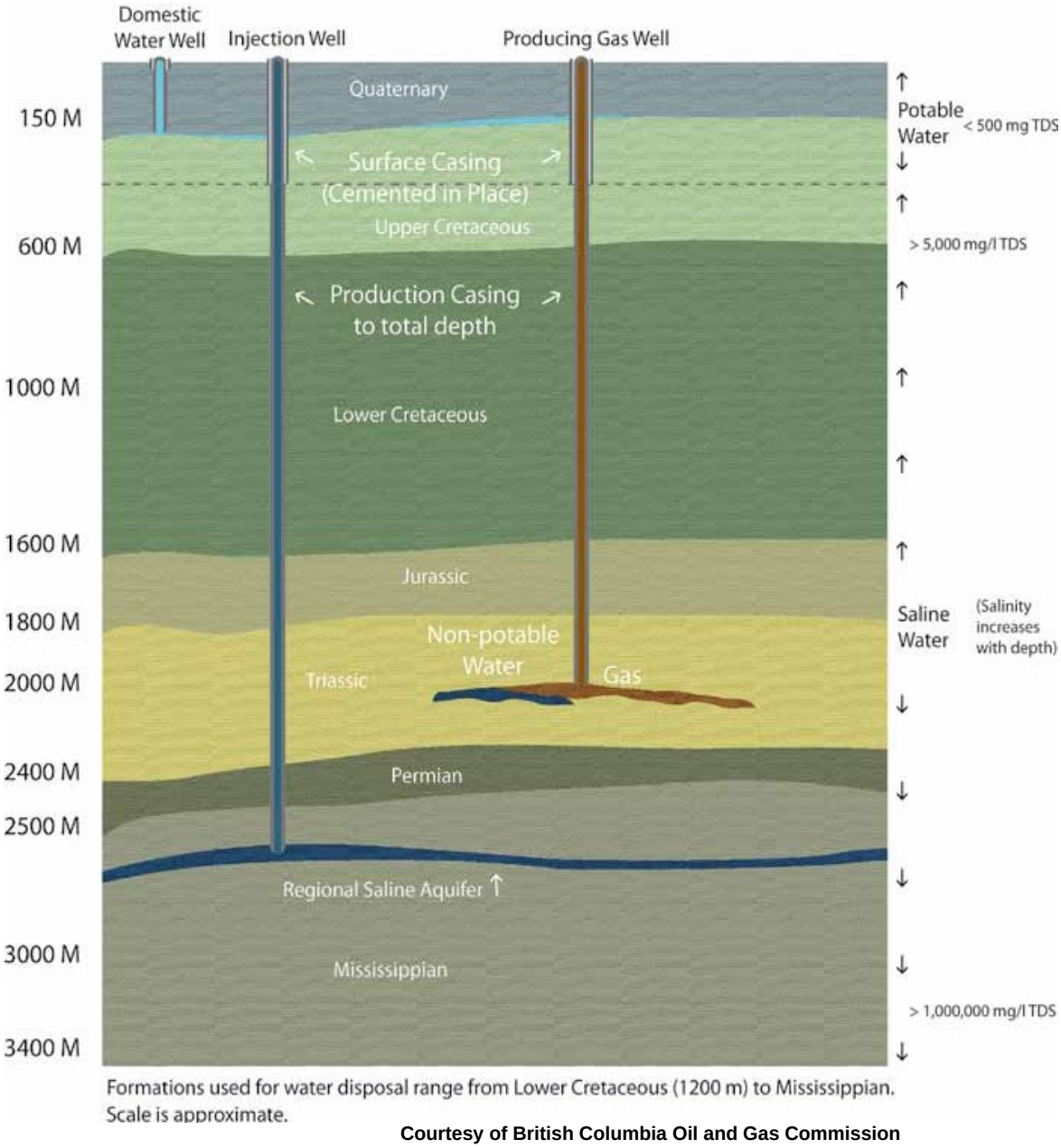
In October 2010, Dejour submitted an application to the OGC for improved recovery for the Woodrush property through the implementation of a waterflood program, which management expects to begin in January 2011. The OGC is the regulatory authority for the natural gas and oil industry within the province of British Columbia. A water injection well injects water into an oil or natural gas pool in order to maintain the reservoir's pressure and helps sweep oil towards producing wells. Water injection wells must be approved by the OGC as required under Section 100 of the Petroleum and Natural Gas Act. Through the application and approval process, a Well Authorization (WA) number is assigned. The oil/gas field operator may also convert an existing oil or gas production well to serve as an injection well. Not only do water injection wells maintain the pool's pressure, they also are an enhanced recovery technique, since the controlled injection of water improves both the efficiency and recovery of oil and/or natural gas.

Management expects the application to be approved in four to eight weeks from the date of submission, in other words, between mid-November and mid-December. The water injection equipment has already been ordered and a producing well may possibly be converted into an injection well. The commencement of water injection is now planned for January 31, 2011, an acceleration of management's initial timetable of March.

The current potential productive capacity from the Halfway reservoir is 850 BOE/D; however, Dejour will restrict production in order to conform with the OGC's allowable well production limits until the waterflood is implemented. When the waterflood takes hold, the production restriction will be phased out, and gross production should increase to between 1,200 and 1,400 BOE/D by the end of June 2011. Management expects revenues from Woodrush field in 2011 to increase by 50% to CAD $12 million. We believe management is being conservative, since our earnings model, which incorporates managements production figures indicates revenues should be CAD $12.9 million. Management estimates that the reserve life of Woodrush is six years.

Ultimately, management expects to have a total of more than 15 producing wells, plus injectors, operating at Woodrush. In addition, multiple oil pools have been detected by the 3-D seismic survey, and in due course, many will be developed. On the cost-side, considerable transportation cost improvement is possible when a seven-mile pipeline is constructed. Currently, oil is trucked over seven miles from the well heads to the nearest pipeline.

Average Depths of a Domestic Water Well, Water Injection Well and a Producing Oil Well



Formations used for water disposal range from Lower Cretaceous (1200 m) to Mississippian. Scale is approximate.

Courtesy of British Columbia Oil and Gas Commission

VALUATION

NAV Formulation

The valuation process for small and mid-cap E&P oil & gas companies is based upon Net Asset Value (NAV), which involves evaluating a company's assets and reserves, and then determining an appropriate discount at which the stock should trade. The NAV calculation entails applying several subjective inputs, such as land valuation (cost or market), a predicted oil price, oil versus gas mix, predicted gas price, drilling costs deep offshore wells versus, drilling success rate, mix of development and exploratory wells, etc. The discount attempts to quantify many factors, including but not limited to the average length of time that will be required to put the reserve additions on the company's books, R/P (reserves to annual

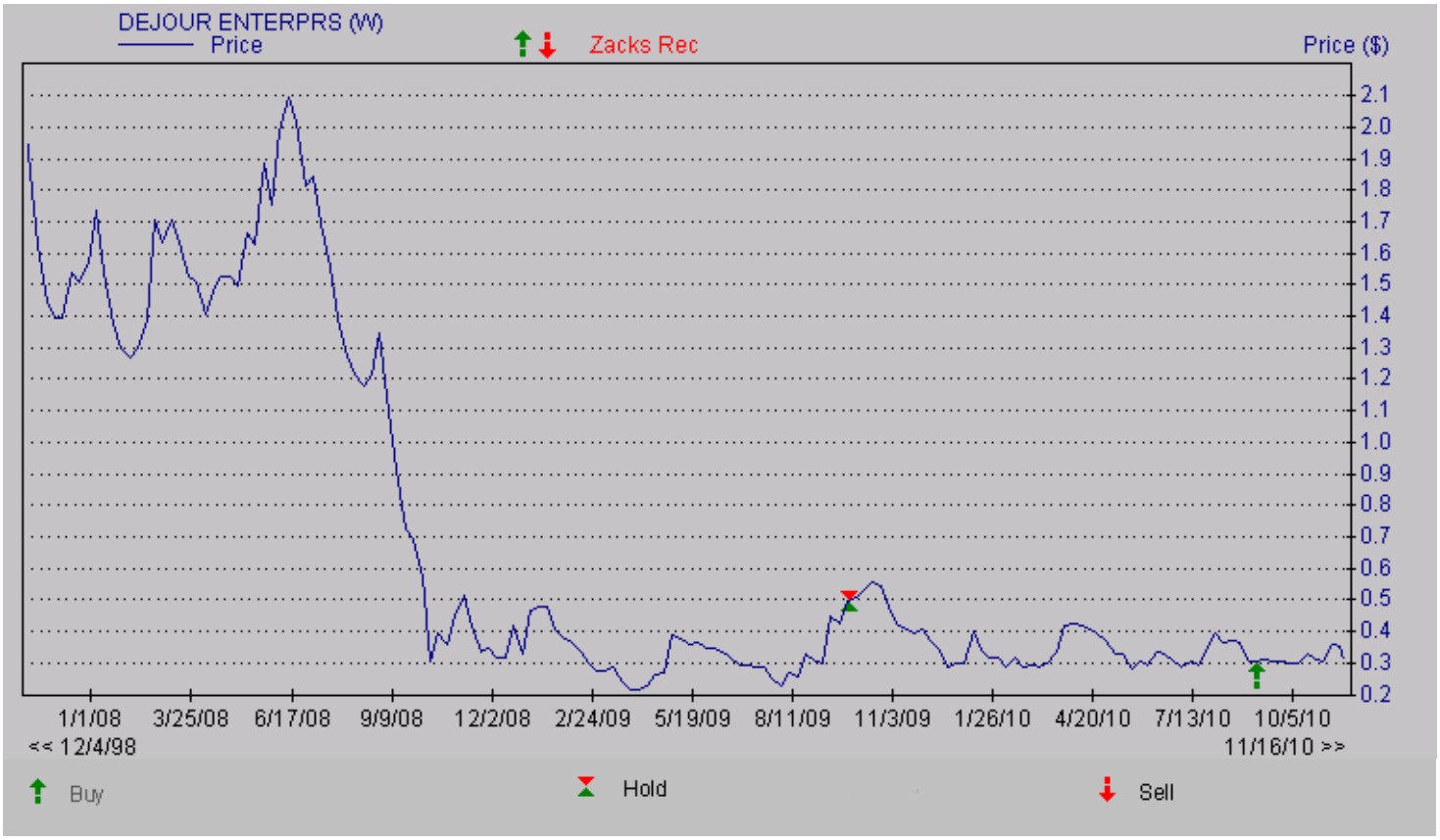
production ratio), the company's PUD (Proved Undeveloped reserve) to 2P reserve ratio, and the stock's liquidity.

Dejour's NAV is estimated to be $180 million (or $1.81 per share) as of September 30, 2010. The $180 million is attained by adding the company's assets of $24 million of land (at cost) and $160 million of PV-10 Proved Reserves ($11 million at Woodrush and $149 million at Gibson Gulch) and deducting $4 million in debt (listed as a current liability on the company's balance sheet). The NAV is then discounted by 40% to attain our target price of $1.10 per share. Though a 40% discount may appear high, it is well within the range of 13% to 59% discounts at which mid-cap E&P companies are currently trading. In addition, with Dejour's stock trading only $125,000 worth of stock on an average day, the stock's illiquidity also factors into the estimated 40% discount.

Dejour Enterprises Ltd. Earnings Model

FISCAL YRS ENDING 12/31	Q1	Q2	Q3	Q4	2009	Q1	Q2	Q3	Q4 E	2010 E	2011 E
PROVED RESERVES (net)											
Natural gas (MMCF)					**88,368**					**87,911**	**92,000**
Crude oil (MBO)					**698**					**775**	**835**
Natural gas liquids (MBO)					**4**						
Total (MMCFE)					**92,580**					**87,911**	**92,000**
Total (MBOE)					**15,430**					**14,652**	**15,333**
PRODUCTION VOLUMES (net)											
Natural gas (MMCF)	212.6	207.7	46.7	89.1	**556**	96.6	136.5	167.3	186.3	**586.7**	**741.2**
Crude oil (MBO)	32.4	15.1	19.8	14.0	**81**	11.8	31.8	28.2	13.8	**85.6**	**129.0**
Natural gas liquids (BBLS)	0.7	0.7	0.5	0.1	**2**	0.6					
Total (MMCFE)	217.0	211.8	49.9	89.7	**568**	100.3	136.5	167.3	186.3	**1,100.3**	**1,515.2**
Total (MBOE)	68.6	50.4	28.1	29.0	**176**	28.5	54.5	56.1	44.9	**183.4**	**252.5**
OIL PRICE REALIZATIONS / GAS HUB PRICES											
Natural gas (CAD/MCF)	4.79	3.88	4.67	4.19	**4.35**	5.04	4.29	3.81	3.50	**16.64**	**3.50**
Oil (CAD/BBL)	42.04	59.88	73.33	63.96	**54.62**	71.60	65.79	66.77	75.00	**279.16**	**80.00**
Natural gas liquids (CAD/BBL)	43.21	49.41	72.42	78.00		23.58					
INCOME STATEMENT (CAD 000 except EPS)											
Natural gas revenues	1,019	806	214	436	**2,475**	487	586	638	652	**2,363**	**2,594**
Crude oil revenues	1,394	905	823	904	**4,026**	846	2,089	1,885	1,035	**5,855**	**10,321**
Natural gas liquids revenues	31	33	38	9	**111**	15				**15**	
Total oil and gas revenues	2,431	1,682	1,036	1,321	**6,471**	1,347	2,676	2,523	1,687	**8,232**	**12,915**
Other operating revenues	290	0	20	6	**315**	(42)	93	21	0	**72**	**0**
TOTAL REVENUES	2,721	1,682	1,056	1,327	**6,786**	1,305	2,769	2,544	1,687	**8,305**	**12,915**
Operating expenses											
Royalties	526	(23)	3	63	**569**	221	551	362	354	**1,488**	**2,712**
Operating and transportation	1,017	875	651	371	**2,915**	843	660	543	581	**2,626**	**2,700**
Amortization, depletion & acc.	2,710	1,264	1,558	904	**6,437**	746	729	1,393	1,250	**4,118**	**3,300**
General and administrative	938	972	1,082	1,046	**4,038**	987	769	670	665	**3,091**	**3,000**
Stock based compensation	210	107	183	198	**697**	164	150	150	150	**615**	**700**
Total operating expenses	5,402	3,196	3,477	2,582	**14,657**	2,961	2,859	3,118	3,000	**11,938**	**12,412**
OPERATING INCOME	(2,681)	(1,514)	(2,421)	(1,255)	**(7,871)**	(1,656)	(91)	(574)	(1,313)	**(3,634)**	**503**
Interest expense	(200)	(185)	(119)	(315)	**(818)**	(252)	(275)	(309)	(300)	**(1,137)**	**(250)**
Interest income	258	105	8	45	**417**	9	8	9	5	**31**	**8**
Gain (loss) on investments	(311)	37		0	**(274)**					**0**	**0**
Equity income (loss)	(142)			0	**(142)**					**0**	**0**
Impairments				(1,260)	**(1,260)**			(10)		**(10)**	**0**
Foreign exchange gain (loss)	(152)	477	63	(131)	**257**	(16)	13	(9)	0	**(12)**	**0**
Pretax income	(3,228)	(1,080)	(2,468)	(2,915)	**(9,691)**	(1,915)	(346)	(893)	(1,608)	**(4,762)**	**261**
Inc. tax recovery (expense)	779	299	55	0	**1,133**	0	0	0	0	**0**	**0**
Net Income before non-reoccuring	(2,449)	(781)	(2,413)	(2,915)	**(8,558)**	(1,915)	(346)	(893)	(1,608)	**(4,762)**	**261**
Less: non-recurring items	0	0	(115)	(4,134)	**(4,249)**	0	0	0	0	**0**	**0**
REPORTED NET INCOME	(2,449)	(781)	(2,528)	(7,049)	**(12,807)**	(1,915)	(346)	(893)	(1,608)	**(4,762)**	**261**
Weighted Avg. Shares Out.	73,721	74,343	81,801	85,840	**78,926**	97,727	98,698	99,198	102,000	**99,406**	**110,000**
EPS before NRI	(0.03)	(0.01)	(0.03)	(0.03)	**(0.11)**	(0.02)	(0.00)	(0.01)	(0.02)	**(0.05)**	**0.00**
REPORTED NET INCOME	(0.03)	(0.01)	(0.03)	(0.08)	**(0.16)**	(0.02)	(0.00)	(0.01)	(0.02)	**(0.05)**	**0.00**

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analysts contributing to this report do not hold any shares of DEJ. Zacks EPS and revenue forecasts are not consensus forecasts. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. **Neutral**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. **Underperform**- Zacks expects the company will under perform the broader U.S. Equity market over the next one to two quarters. The current distribution of Zacks Ratings is as follows on the 1012 companies covered: Outperform- 15.2%, Neutral- 78.5%, Underperform – 5.8%. Data is as of midnight on the business day immediately prior to this publication.

GLOSSARY AND KEY TO ABBREVIATIONS

1P - Proved reserves
2P - Proved reserves plus Probable reserves
3P - Proved reserves plus Probable reserves plus Possible reserves
API - American Petroleum Institute
BCF - Billion cubic feet
BLM - U.S. Dept of the Interior, Bureau of Land Management
BCFE - Billions of cubic feet equivalent
BOE - Barrel of oil equivalent (6 MCF of natural gas = 1 BOE)
BOE/D - Barrel of oil equivalent per day
BOPD - Barrels of oil per day
E&P – Exploration and Production
MBO - Thousand barrels oil
MBOE - Thousand barrels of oil equivalent
MCF - Thousand cubic feet natural gas
MCFD - Thousand cubic feet per day
MMBO - Million barrels oil
MMBOE - Million barrels of oil equivalent
MMCF - Million cubic feet
MMCFD - Million cubic feet per day
NAV - Net Asset Value
OGC – the British Columbia Oil and Gas Commission
Operating Netback - non-GAAP measure of oil and gas sales net of royalties, production and transportation expenses
P50 - Probable reserves with a 50% confidence level of recovery aka 2P
PD - Proved Developed reserves
PUD - Proved undeveloped reserves
PV-10 - Present value calculated at a 10% discount rate.